

**Auditor's report of the Auditor-General to
the Gauteng Provincial Legislature on the
Midvaal Local Municipality for the year
ended 30 June 2012**



Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA

The reputation promise of the Auditor-General

"The Auditor-General has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence."

The mission statement informs the content of the Public Audit Manual (PAM) by recognising that the audits conducted by the SAI of South Africa are unique due to its mandate. This mandate includes responsibilities in terms of laws or regulations that go beyond generally accepted practice of the auditor's responsibilities in the audit of the financial statements.

These responsibilities include: consideration of issues such as public interest; accountability; probity; effective legislative oversight, in particular as concerns compliance with law, regulation or other authority; performance against pre-determined objectives; and economic, efficient, and effective procurement of resources.

The ultimate goal of the audits is to strengthen the South African democracy.



AUDITOR-GENERAL
SOUTH AFRICA

Mr. ASA De Klerk
Accounting Officer
Midvaal Local Municipality
P.O.Box 9
Meyerton
1960

Date 30 November 2012

Reference: TS 9819611

Dear Mr De Klerk

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Midvaal Local Municipality for the year ended 30 June 2012

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa [section 121(3) of the Municipal Finance Management Act of South Africa (MFMA)]
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) you are required to include the audit report in the Midvaal Local Municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in

the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this consolidated audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



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Prakash Narismulu
Deputy Business Executive: Gauteng

Enquiries: Nokukhanya Vilakazi
Telephone: (011) 703 7814
Fax: (011) 703 7690

**REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL
LEGISLATURE AND THE COUNCIL ON MIDVAAL LOCAL MUNICIPALITY
REPORT ON THE FINANCIAL STATEMENTS**

Introduction

1. I have audited the financial statements of Midvaal Local Municipality set out on pages ~~xx~~ to ~~xx~~, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Midvaal Local Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters

Significant uncertainties

8. As disclosed in note 31 to the financial statements, the entity is a defendant in various lawsuits. The ultimate outcome of the matter cannot presently be determined and therefore no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

9. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during the 2012 financial cycle, in the financial statements of the Midvaal Local Municipality at, and for the year ended, 30 June 2011. The errors identified relate to investment property.

Material losses

10. As disclosed in note 41 to the financial statements, the municipality suffered water losses of 3 310 640 kilolitres amounting to R15 063 412 (2011: R3 113 860) as a result of theft, faulty meters, leakages and unmetered areas during the financial year
11. As disclosed in note 41 to the financial statements, the municipality suffered significant electricity distribution losses of 33 826 337 kilowatts amounting to R18 266 221 (2011: R12 430 808). The losses are due to illegal connections and faulty meters.

Material Impairments

12. As disclosed in note 23 to the financial statements, material losses to the amount of R25 525 249 (2011: R 24 802 470) were incurred as a result of a write-off of irrecoverable trade debt.

Additional matters

13. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

14. The supplementary information set out on page xx does not form part of the financial

statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
17. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

18. The material findings are as follows:

Usefulness of information

19. Based on my work described in this report, nothing has come to my attention that causes me to believe that the annual performance report is not useful, in all material respects, in accordance with the predetermined criteria.

Reliability of selected objectives in the annual performance report

20. Based on my work described in this report, nothing has come to my attention that causes me to believe the annual performance report is not fairly stated in all material respects, in accordance with the predetermined criteria.

Additional matters

21. I draw attention to the following matter below although no material findings concerning the usefulness and reliability of the performance information was identified in the audited performance report.

Achievement of planned targets

22. Of the total number of 160 planned targets, 37 were not achieved during the year under review. This represents 23% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

Compliance with laws and regulations

23. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Annual Financial statements, performance and annual report

24. The financial statements submitted for auditing were not prepared in all material respects in accordance with section 122 of the MFMA. Material misstatements of investment property, property, plant and equipment, revenue were identified by the auditors in the submitted financial statements, were subsequently corrected resulting in the financial statements receiving an unqualified opinion

Internal control

25. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

26. The accounting officer did not exercise sufficient oversight responsibility regarding financial reporting, compliance and related internal controls.
27. The accounting officer did not sufficiently monitor the implementation of action plans to address the internal control deficiencies over financial reporting.

Financial and performance management

28. Management did not adequately prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information.
29. Management did not adequately review and monitor compliance with applicable laws and regulations with regards to the Annual Financial Statements.

30. Management did not implement adequate controls over daily and monthly processing and reconciling of transactions including disclosure notes.

OTHER REPORTS

Investigations

31. In the previous year we reported that Midvaal Local Municipality was being investigated by the Public Protector and the report was released in June 2011. Currently there is a follow up investigation conducted by the Special Investigations Unit for maladministration which is ongoing.

AUDITOR GENERAL

Johannesburg
30 November 2012



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SOUTH AFRICA

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